

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 ICA-11 AID-05
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 IO-13 AGRE-00 INT-05 DOE-15
SOE-02 DOEE-00 SSO-00 OES-07 HA-05 /151 W
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P R 240940Z MAY 78
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC PRIORITY 2692
AMEMBASSY JAKARTA
INFO AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY BONN
AMEMBASSY OTTAWA
AMEMBASSY CANBERRA
AMEMBASSY WELLINGTON
AMEMBASSY LONDON
AMEMBASSY MANILA

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USOECD

MANILA FOR USADB

E.O. 11652: NA
TAGS: EAID ID
SUBJECT: 21ST MEETING OF INTER-GOVERMENTAL GROUP ON INDONESIA

SUMMARY: THE ATMOSPHERE AND SPIRIT OF DISCUSSIONS WHICH
PREVAILED DURING THIS TWO DAY MEETING WAS CHARACTERIZED BY
STRONG ACCORD BETWEEN THE GOI AND 13 BILATERAL AND FOUR
MULTILATERAL DONORS REPRESENTED ON NATURE OF MAJOR PROBLEMS
FACING INDONESIA AND RELATIVE PRIORITIES THESE WILL COMMAND
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IN CURRENT PLANNING. PRINCIPAL AMONG THESE WERE SHORTFALLS
IN DOMESTIC FOOD PRODUCTION WITH RESULTANT INCREASING OUTLAY
OF FOREIGN EXCHANGE EARNINGS FOR RICE IMPORTS; LACK OF
JOB OPPORTUNITIES FOR THE GROWING NUMBER OF RURAL AND URBAN
UNEMPLOYED; EMPHASIS TO BE GIVEN EXPORTS OTHER THAN OIL
IN VIEW OF THE LEVELING OF FOREIGN EXCHANGE EARNINGS
FROM OIL; AND EXPANSION OF GOI EFFORTS TO MOBILIZE ITS

OWN REVENUES AND EXPAND PRIVATE DOMESTIC AND FOREIGN CAPITAL INVESTMENT. THE GOI WAS WIDELY COMPLIMENTED BY ALL FOR ITS ECONOMIC PERFORMANCE AND FISCAL MEASURES DURING THE PAST YEAR WHICH HAVE RESULTED IN A SEVEN PERCENT GROWTH IN THE GNP, REALISTIC BUDGETARY PLANNING, AND INCREASED DOMESTIC REVENUES. THE OUTSTANDING SUCCESS OF ITS FAMILY PLANNING PROGRAM WAS GIVEN SPECIAL MENTION BY PRINCIPAL DONORS. WHILE IT IS DIFFICULT TO COME UP WITH A PRECISE FIGURE GIVEN DIFFERING FISCAL YEARS, FLUCTUATING EXCHANGE RATES AMONG DONORS, AND THE EXPRESSED WILLINGNESS OF SEVERAL TO CONSIDER INCREASED LEVELS IF RATE OF EXPENDITURES SO WARRANTED, IT APPEARS THAT THE TOTAL AMOUNT OF MULTILATERAL AND BILATERAL CONCESSIONAL ASSISTANCE OFFERED WILL BE IN THE VICINITY OF THE \$1,750 MILLION PRESCRIBED BY THE WORLD BANK FOR THE CURRENT INDONESIAN FISCAL YEAR (4/1/78-3/31/79).
END SUMMARY.

1. THE IBRD REPORT OF 4/26/78 ON RECENT DEVELOPMENTS, SHORT TERM PROSPECTS, AND DEVELOPMENT ISSUES PROVIDED THE FRAME-
WRK FOR MOST DISCUSSIONS AND DONOR OBSERVATIONS DURING
IGGI 21. NO MAJOR EXCEPTIONS WERE TAKEN TO THE BANK'S
ANALYSIS WHICH WAS REINFORCED IN LARGE DEGREE BY THE SUM-
MARY CONCLUSIONS CONTAINED IN THE CONCURRENT IMF REPORT
ON RECENT ECONOMIC DEVELOPMENTS IN INDONESIA DATED
4/20/78. THE INDONESIAN DELEGATION HEADED BY MINISTER
COORDINATOR WIDJOJO NITISASTRO FOCUSED ON MAJOR DEVELOP-
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MENT PROBLEMS IN ITS OPENING STATEMENT SO THAT VIRTUALLY
NOTHING NEW WAS INTRODUCED IN THE SUBSEQUENT REMARKS OF
DONOR DELEGATIONS. SOME CLARIFICATIONS WERE REQUESTED
FROM THE OBRD AND GOI ON VARIOUS POINTS, BUT THERE
APPEARED TO BE ACCORD ON THE NATURE AND MAGNITUDE OF INDO-
NESIA'S PRINCIPAL PROBLEMS. LONG RANGE STRATEGIES FOR
ADDRESSING THESE PROBLEMS WILL BE BASED IN PART ON THE
CONCLUSIONS OF A SERIES OF IBRD STUDIES SCHEDULED TO BE
COMPLETED LATER THIS YEAR, SO NO PLANS OR POLICIES WERE
EVEN SUGGESTED AT THIS TIME. THE INTER-RELATIONSHIPS
BETWEEN THEM WERE RECOGNIZED AS WAS THE NEED FOR A COM-
PREHENSIVE STRATEGY ADDRESSING THEM IN INDONESIA'S NEXT
FIVE-YEAR DEVELOPMENT PLAN, REPELITA III, WHICH BEGINS
IN APRIL 1979.

2. THE MAJOR PROBLEMS AND THE ISSUES SURROUNDING THEM
WHICH WERE RAISED, TO THE EXTENT THEY COULD BE DISCUSSED,
ARE AS FOLLOWS:

A. CHRONIC FOOD DEFICITS - A COMPREHENSIVE FOOD POLICY
TO REDUCE THE FOREIGN EXCHANGE NOW EXPENDED ANNUALLY
FOR RICE IMPORTS IS A PRIME NECESSITY. SUCH A POLICY

WILL INCLUDE HERETOFORE NEGLECTED DOMESTIC PRODUCTION OF

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SECONDARY FOOD CROPS OTHER THAN RICE, AND WILL TAKE
INTO ACCOUNT INCENTIVES AND RESTRAINTS IN PRODUCTION,
DISTRIBUTION, MARKETING AND PRICING OF ALL FOODSTUFFS.

B. EMPLOYMENT - PRIORITY AND INCENTIVES ARE TO BE
ACCORDED LABOR INSTENSIVE PROJECTS IN BOTH THE INDUSTRIAL
AND RURAL SECTORS. THERE WAS GENERAL RECOGNITION BY ALL
THAT THERE IS LITTLE BY WAY OF SUCCESSFUL EXPERIENCE IN
LABOR-INSTENSIVE ACTIVITIES ELSEWHERE WHICH CAN SERVE AS
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AS MODEL FOR INDONESIA'S PIONEERING ATTEMPTS IN THIS FIELD.

C. NON-OIL EXPORTS -- THE LEVELING THIS YEAR AND FOR THE FORESEEABLE FUTURE OF EARNINGS FROM OIL EXPORTS UNDERLINED THE URGENCY OF DEVELOPING OTHER SOURCES OF FOREIGN EXCHANGE EARNINGS. MOST PROMINENT AND PROMISING APPEAR TO BE EXPANSION OF TREE CROPS, PARTICULARLY RUBBER, COFFEE, TIMBER, COPRA AND TEA, WITH EMPHASIS ON SMALL-HOLDER RUBBER PRODUCERS.

D. EXPANSION OF PRIVATE SECTOR - RECOGNIZING THAT PUBLIC SECTOR CAPITAL OUTLAYS WILL NOW BE LIMITED BY LEVELING OF OIL REVENUE EARNINGS, THE NEED FOR INCREASED INCENTIVES AND SIMPLIFYING THE CHANNELS BY WHICH PRIVATE FOREIGN AND DOMESTIC CAPITAL CAN BE DIRECTED INTO EQUITY INVESTMENTS WAS REITERATED BY MOST DONORS. MEANINGFUL STEPS TAKEN IN THIS DIRECTION BY THE GOI DURING THE PAST YEAR WERE LAUDED.

E. MOBILIZATION OF DOMESTIC RESOURCES -- RECOGNIZING THE DEGREE TO WHICH THE GOI'S DEVELOPMENT BUDGET HAS DEPENDED UPON OIL REVENUES IN THE PAST, THE URGENCY OF EXPANDING THE EXISTING TAX BASE WAS ALSO EMPHASIZED. AGAIN THE GOI WAS CONGRATULATED FOR THE MEASURES IT ENACTED IN THIS DIRECTION DURING THE PAST YEAR.

3. WHILE THERE WAS A HARMONY OF VIEWS ON THE EXTENT OF THE FOREGOING PROBLEMS AND THEIR INTERRELATIONSHIPS AND RELATIVE PRIORITIES, IT WAS RECOGNIZED THAT IN THE ABSENCE OF THE SERIES OF REPORTS DEALING WITH THE INDO-NESIAN ECONOMY, THE AGRICULTURAL SECTOR, AND EMPLOYMENT WHICH THE WORLD BANK HAS UNDERWAY, THERE COULD BE LITTLE SUBSTANTIVE DISCUSSION OF THEIR SOLUTIONS. ACCORDINGLY LIMITED OFFICIAL USE

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THERE WAS A SUGGESTION MADE BY THE GOI AND A CONSENSUS EXPRESSED THAT A SPECIAL MEETING BE HELD EARLY IN 1979 TO REVIEW THE FINDINGS OF THESE REPORTS AND HOW THESE WILL BE ADDRESSED IN REPELITA III. THE IBRD STATED ALL THE REPORTS IN QUESTION SHOULD BE COMPLETED BY THE END OF DECEMBER AND THAT DRAFTS OF MANY KEY SECTIONS WOULD BE CIRCULATED TO IGGI MEMBERS WITHIN THE NEXT SEVERAL MONTHS. AS AGREED BY THE INTERAGENCY MEETING, SULLIVAN GAVE IBRD V.P. HUSAIN THE SERIES OF QUESTIONS ON TRANSMIGRATION PREPARED BY THE DEPARTMENT OF TREASURY. HE RECEIVED THEM GRACIOUSLY AND SAID THAT HE WOULD SEE TO IT THAT THE QUESTIONS WERE ADDRESSED IN THE TRANSMIGRATION STUDY NOW IN PREPARATION BY THE BANK. HE ALSO INDICATED

AN INTEREST IN HAVING A MEETING OF BANK OFFICIALS
WITH US REPRESENTATIVES TO DISCUSS TRANSMIGRATION.

4. IN THE PLEDGING SESSION ALL MAJOR DONORS WERE AS
FORTHCOMING AS COULD BE EXPECTED IN RESPONDING TO THE
WORLD BANK'S REQUEST FOR A TEN PERCENT INCREASE OVER
THE AMOUNTS COMMITTED AT LAST YEAR'S IGGI. NOTEWORTHY
WERE JAPAN WITH A STATED 37 PERCENT INCREASE TO \$240
MILLION IN LOANS, AND THE IBRD WITH A PLANNING LEVEL OF
\$650 MILLION WHICH REPRESENTS AN INCREASE OF ALMOST 30
PERCENT OVER THE PREVIOUS YEAR. IT WAS NOTED THE US
PERFORMANCE THUS FAR IN FY 1978 EXCEEDED THE FIGURE
GIVEN A YEAR AGO MAINLY DUE TO INCREASED PL 480 SALES,
AND THAT OUR INDICATION FOR THE COMING YEAR OF \$185.6
MILLION EXCEEDED THE CURRENT YEAR BY OVER 20 PERCENT.
IT WAS STATED THAT FUTURE LEVELS OF US PROJECT AND
FOOD ASSISTANCE WILL BE REVIEWED TO INSURE THAT THEY
ARE PROPORTIONATE TO THE SCOPE OF A NEW COMPREHENSIVE
FOOD STRATEGY.

5. THE HUMAN RIGHTS ISSUE WAS FIRST BROACHED BY THE
USG IN ITS OPENING STATEMENT AND ALSO MENTIONED BY THE
UK, THE FRG AND SPAIN IN THEIR STATEMENTS. THE USG,
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US AND FRG ACKNOWLEDGED THE POSITIVE MEASURES TAKEN
IN THIS FIELD DURING THE PAST YEAR AND NOTED THEIR CON-
TINUING INTEREST IN MEASURES TO RESOLVE THIS MATTER
SATISFACTORILY.

6. THE FINAL COMMUNIQUE OF IGGI 21 BEING CABLED
SEPARATELY.
BROWN

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